United States Court of Appeals

for the Second Circuit

PETITION FOR REHEARING AND SUGGESTION FOR REHEARING EN BANC

No. 74-1757

IN THE

United States Court of Appeals

FOR THE SECOND CIRCUIT

No. 74-1757

LEE PHARMACEUTICALS,
Appellant

v.

CERAMCO, INC.,
Appellee

Appeal from the United States District Court for the Eastern District of New York

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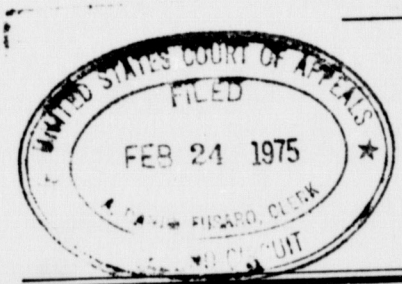
REQUEST FOR RECONSIDERATION AND SUGGESTION FOR REHEARING EN BANC



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The facts as stated in the opinion filed January 30, 1975 are demonstrably incorrect and incomplete. The result reached on the basis of this inaccurate fact statement is inconsistent with prior decisions in which this Court took the lead in demanding adherence to the high ethical standards required to maintain respect for and the integrity of the legal profession and in protecting the rights of those who were or might be injured by any

breach thereof. The opinion filed January 30, 1974 effectively condones a clear violation of the ethical standards mandated by the Code of Professional Responsibility, to the detriment of the party actually injured thereby.

The Court is requested to reconsider the opinion filed January 30, 1975, and in so doing (1) to correct the statement of facts, and (2) to modify its opinion and judgment in light of the true facts so as *inter alia*, to take cognizance of and prescribe a proper remedy for the wrongdoing which the facts demontrate.

Rehearing *en banc* is suggested to determine whether the Court of Appeals for the Second Circuit is now disposed to attenuate the principles enunciated in, *e.g.*, *Emle Industries, Inc.* v. *Patenex, Inc.*, 478 F.2d 562 (2d Cir. 1973) and *General Motors Corp.* v. *City of New York*, 501 F.2d 639 (2d Cir. 1974).

The Factual Errors

1. The opinion states

> "there is *no suggestion* that [Ceramco's] counsel sought any *unfair advantage* by his inquiries." (p. 1547)

This statement is *plainly incorrect.*

Lee's opening brief (pp. 13-14) points out the scheme which was implemented to obtain an unfair advantage in this litigation. It later states

> "It is equally clear that neither a party nor its counsel should benefit from information unethically elicited from an opposing party in derogation of DR 7-104(A). *In this case, Ceramco obtained an unfair advantage by resorting to unethical procedures in lieu of the discovery process provided by the Federal Rules of Civil Procedure.* A minimum sanction would be suppression of the wrongfully procured information coupled with the relegation to Ceramco of the

position in which it would have been if this unethical conduct had not occurred. *Cf. Obser* v. *Adelson*, 96 N.Y.S. 2d 817 (1949)." [p. 28]

The same "unfair" advantage" is emphasized in Lee's Reply Brief:

> "The ultimate issue to be determined on this appeal is whether Ceramco counsel's acknowledged professional misconduct in
>
> > (1) improperly and surreptitiously contacting the defendant Lee Pharmaceuticals in derogation of Canon 7 for the acknowledged purpose of obtaining information to be utilized to obtain an *unfair advantage* in prospective litigation *against* Lee, and
> >
> > (2) including that information, in derogation of Canon 5 in the verified complaint and other *ex parte* affidavits which were intended to, and did, induce action by the district court against Lee,
>
> compromises Lee's right not only to a fair trial but also to a trial that *appears* wholly fair." [pp. 1-2]
> ". . . the facts showing that *Lee has been injured by Ceramco counsel's misconduct* because it's right to a trial that is, and appears to be, wholly fair has been severely impaired." [p. 3]
>
> "*Lee does contend that it has been injured and unfairly disadvantaged* by Ceramco's use of information obtained by Ceramco counsel through trickery as the basis for instituting litigation in the distant and inconvenient Brooklyn forum. . . ." [p. 15]
> "A law firm that has unethically contrived to obtain adverse party information, knowing that such information could not ethically be obtained *at that time* and has then used it *to gain unfair advantage* over the injured party cannot realistically be heard to urge that its continued participation in the controversy can be excused . . . ." [p. 16]

"In short, this Court's continued adherence to the principle that both district and appellate courts *must* act to disqualify counsel for conduct which jeopardizes the adverse party's right to a fair trial or threatens to tarnish the purity of the judicial process, or both, is wholly in order. It should be applied in this case to grant the relief Lee seeks." [p. 17]

The opinion should be corrected at p. 1547 to make it clear that Lee strongly and repeatedly made the "suggestion that [Ceramco] counsel sought [and gained an] unfair advantage by his inquiries."

2. The opinion states that

"Ceramco's inquiries were limited in scope to those items of information necessary to ascertain whether suit could be instituted in the chosen forum. . . ." [p. 1547]

There is *no* evidence to support this statement.

As the Lee Reply Brief emphasized

"There is no record support for Ceramco counsel's assertion that 'no other information of any kind was sought' (C.B. 3). Mr. Towell's first affidavit of April 29, 1974 (A 59-61; A 226-228) says nothing on the point, one way or another. His second affidavit of May 29, 1974 (A 223-225) says his first call '*consisted* of my asking the girl who answered the telephone in the order department for the names of dealers in New York' (A 224) and is thus at odds with the apposite paragraph (A 59-60) of the April 29, 1974 affidavit which describes a more extensive conversation including several questions posed by Mr. Towell and forecloses the possibility that the conversation could have '*consisted*' of one question only. The May 29, 1974 affidavit describes the second unethical call as 'similar' to the first and avers 'I did not discuss the case' (A 224) in the second call.

This latter averment, even if assumed accurate,[5] does not disclaim the possibility that other pertinent and *private* Lee information was requested and obtained."

"[5] Pointedly, the district court has refused at Ceramco counsel's urging to permit Lee to take Mr. Towell's deposition for the purpose of examining him on the averments of his own two affidavits, or those of the verified complaint (A 8-14) and the concurrently filed Pelton affidavit (A 18-49) both of which he not only authored, but posited at least partially on his own personal factual investigations and knowledge. One of several motions now pending before the district court is a motion for reconsideration of the denial of the right to take the Towell testimony.

In the agsence of an opportunity for cross-examination, Mr. Towell's various sworn statements may *not* be utilized as evidence in Ceramco's favor on this appeal or elsewhere."

The opinion should be corrected to make clear that Lee does *not know* the scope of the inquiries" [1] and does not accept Ceramco's contention that they were so "limited", having been refused the opportunity to cross-examine Mr. Towell.

3. The opinion states that

> "Appellant's alternative claim that disqualification is required on the ground that Towell became in effect a witness for his client must also be rejected. Towell's affidavit was not considered by the district court at the hearing to determine jurisdiction and in fact an offer was made to withdraw it voluntarily." [p. 1549]

Important material facts are omitted from the above-quoted portion of the opinion. Had these facts been included, it would be difficult to justify the rejection of the disqualification claim.

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[1] A Lee order department employee believed to have been involved in at least one of the calls left the company before revelation of the illicit calls; hence, Lee has been unable to ascertain the full facts internally.

Specifically, the unethically elicited information was *not merely* included in "Towell's affidavit . . . not considered by the district court" as to which "an offer was made to withdraw it voluntarily." It *was also included in* the verified complaint and Pelton affidavit which Rogers and Wells prepared and *refused to withdraw.* As stated in Lee's opening brief:

> "The information thus wrongfully elicited from Lee was used to justify the essential jurisdictional allegations of the complaint. It was also incorporated into an 'Affidavit in Support of Order to Show Cause' *prepared* by Mr. Towell and Mr. Dobbins and verified by Mr. Pelton, Ceramco's President, on April 11. The next day, April 12, 1974, the Court entered the request order requiring Lee to show cause by April 26 why it should not be preliminarily enjoined from continuing use of its 'Genie' trademark." [p. 14]

See also, Lee's Reply Brief, p. 2, n. 1:

> "[1] Ceramco counsel included the unfairly and surreptitiously procured information in the verified complaint (A 8-13) and the accompanying *ex parte* affidavit of Ceramco's president (A 18-49; especially at A 21). These papers were relied upon to induce an *ex parte* order (A 15) authorizing long arm service of the complaint upon Lee in California and an *ex parte* show cause order (A 16) directing Lee to demonstrate on short notice why a preliminary injunction should not immediately be used."

Mr. Towell, however, flatly refused to withdraw, voluntarily or otherwise, either the verified complaint or the Pelton affidavit, which *Towell* prepared at the request of Mr. Dobbins and which included the very same unethically-elicited information and resulted in the issuance of the show cause order. Thus, Lee's opening brief states at page 9:

> "In an informal conversation in the courthouse prior to the May 9, 1974 hearing, Mr. Towell agreed to Lee counsel's demand to withdraw his *own* April 29 affidavit (App. 59) but refused to withdraw either the verified complaint or the 'Show Cause' affidaivt of Ceramco's president, H. Gordon Pelton, which include the same information wrongfully elicited by Mr. Towell from Lee on April 2, 1974. See discussion, *supra*, p. 6." [p. 9]

The quoted portion from page 1549 of the opinion should be amended to make it clear that "Appellant's alternative claim" is in fact premised on the ground that "Towell became in effect a witness for his client" through the verified complaint and the Pelton affidavit as well as his own [Towell's] affidavit, all of which set forth the unethically-elicited testimony and that Towell and Rogers and Wells flatly refused to withdraw either the verified complaint or the Pelton affidavit.

4. The statement in the opinion that Ceramco should not be "punished by precluding reliance on the counsel's work product" (p. 1548) overlooks the fact that there is *no* such "work product" properly to be considered.

The only "counsel's work product" properly before this Court is that resulting from and embodying the fruits of the wrongdoing. Lee's disqualification motion was brought immediately after the wrongdoing was revealed. This Court concurred in Ceramco's insistence that the district court proceedings go forward and thus, on June 5, 1974, denied Lee's motion to stay under Federal Appellate Rule 8a. See Appellant's Brief, p. 12-13.

It is requested that the above-cited portion of the opinion be amended to reflect these facts. It should also be made quite clear either that this Court *does* or *does not* approve of (1) resort to unethical conduct in lieu of the procedures defined by the discovery rules as a means for

eliciting information from an adversary, and (2) the use of unethically elicited facts to procure enforcement of the court's process.

5. The statement in the opinion that the district court "has been held to be a proper forum" (p. 1548) prejudicially resolves *against* Lee, for the purposes of the present decision, a ruling which the opinion admits "is not before us on this appeal."[2] The propriety of the district court as a forum is under serious challenge and the previously-noticed appeal No. 74-1858 was dismissed by stipulation without prejudice to Lee's right to raise the issue on appeal from the final judgment. The stipulation was proposed by Lee counsel to avoid burdening this Court prematurely because of a conviction that the denial of the Rule 12(b) motion was not an appealable collateral order. See Appellants Reply Brief, p. 10, n. 6.

6. As a housekeeping matter, the phrase "Mr. Lee's telephone call" in Judge Manfield's concurring opinion should read "Mr. Towell's telephone call."

The Legal Issue

The decision below holds that, notwithstanding the teaching of *General Motors* v. *City of New York*, 501 F.2d 639 (2d Cir. 1974) as to both Canon 9 and the Code of Professional Responsibility generally, Canon 1 stands in a different posture and *is* "designed for Holmes' proverbial 'bad man' who wants to know just how many corners he may cut, how close to the line he may play,

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[2] As repeatedly emphasized, the propriety of the forum is a synthetic issue. As stated in the Lee Reply Brief, Lee's complaint "is not premised on the outcome of the Rule 12(b) motion [in the court below] but upon the unfair advantage Ceramco gained from the bootleg information before the Rule 12(b) motion was ever filed [*i.e.*, upon the granting of the Order to Show Cause and the direction to serve the complaint and concurrently filed papers upon Lee in California]." (Lee Reply Br. p. 10)

without running into trouble with the law . . ." It holds that Canon 1 may be ignored and the Federal Rules of Civil Procedure circumvented with impunity in this Circuit.[3] It specifically condones elicitation of evidence and information by unethical means, and inducement of the exercise of process in the lower courts on the basis of unethically-elicited information. It permits—even encourages—parties who engage unethical lawyers to profit from the evil fruits of those lawyers' misconduct.

The decision is thus a charter for wrongdoing, impossible to square with the lofty principles which this Court enunciated in *Emle Industries, Inc.* v. *Patentex, Inc.*, 478 F.2d 562 (1973) and *General Motors*, *supra*. There is certainly an "appearance of impropriety" in any situation which permits a deliberate wrongdoer's client to benefit from the wrongdoing—and it poses every bit as much of "a substantial threat to the integrity of the judicial process" as a conflict of interest situation.

If this Court is to adopt the principle implicitly suggested by the panel decision—that of protecting the integrity of the judicial process against misconduct by lawyers *only* when a real or potential conflict of interest is shown but tolerating all other forms of unethical conduct, however potentially or actually prejudicial to an adversary in litigation—then *at the very least* the

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[3] It is especially noteworthy that the misconduct in this case was no mere inadvertence or incidental misstep. Counsel who argued the case for Rogers and Wells, Mr. Owens, acknowledged—even boasted—to the panel that junior associate Towell followed a practice, in instituting the bootleg calls to get advance information on which to posit venue, that is *routine* within that firm. Thus, lawyer Owens said that he "always" seeks out a salesman for a potential adversary to obtain advance venue information and that he would "never" consult the adversary's counsel because he "knows" that such counsel would refuse to furnish the desired pre-complaint information.

full Court should first address the problem with complete appreciation of what is at stake, and should advise the public and the bar accordingly.

Respectfully submitted,

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UNITED STATES SECOND
CIRCUIT COURT OF APPEALS

CERAMCO, INC.,

Plaintiff,

- against -

LEE PHARMACEUTICALS,

Defendant.

No. 74-1757

AFFIDAVIT

CITY OF WASHINGTON)
) ss:
DISTRICT OF COLUMBIA)

DONALD E. STOUT, being duly sworn, deposes and states:

That he is a member of the firm of Irons & Sears, attorneys for Lee Pharmaceuticals, defendant in the above captioned action;

That he caused to be served by mail, postage prepaid, three (3) copies of a "Request for Reconsideration and Suggestion for Rehearing En Banc" on counsel for defendants, Rogers & Wells on this 19th day of February 1975.

Donald E. Stout

Donald E. Stout

Sworn and subscribed to by me
this 19th day of February, 1975.

Notary Public

My Commission Expires July 14, 1976